MAHER SHOES

LIMITED

ANNUAL REPORT

December 31st, 1973

MAHER SHOES LIMITED

Annual Report for the year ended December 31, 1973

DIRECTORS

LANE R. CHESTER
EARL H. ORSER
DONALD E. ROSS
JAMES R. SOUTH
GEORGE F. TRAVELLE
DONALD G. WILLMOT
THOMAS P. WILSON

OFFICERS AND MANAGEMENT

LANE R. CHESTER, Chairman of the Board
THOMAS P. WILSON, President
LORNE D. PHILLIPS, Vice-President, Maher Division
DONALD E. ROSS, Vice-President, Merchandising
ROBERT C. WILSON, Vice-President, Bonita Division
GEORGE F. TRAVELLE, Secretary
JAMES R. GILLIES, C.A., Treasurer

COPP THE SHOE MAN LIMITED

J. WEMYSS REID, President

AUDITORS

CLARKSON, GORDON & CO., TORONTO, CANADA

SOLICITORS

FRASER & BEATTY, TORONTO, CANADA

HEAD OFFICE

144 FRONT STREET WEST, TORONTO, CANADA

TRANSFER AGENT AND REGISTRAR

THE CANADA TRUST COMPANY, TORONTO, CANADA

FINANCIAL HIGHLIGHTS

	1973	1972	(1) 1971	(2) 1970	(2) 1969
Sales	24,981,000	20,573,000	17,367,000	16,135,000	14,979,000
Earnings before Income Taxes	1,783,000	1,626,000	1,322,000	1,155,000	1,236,000
Earnings from Operations	892,000	826,000	664,000	571,000	604,000
Per Common Share	3.80	3.48	2.71	2.37	2.55
Return on Sales	3.6%	4.0%	3.8%	3.5%	4.0%
Dividends Paid	262,000	249,000	245,000	234,000	218,000
Per Preference Share	.60	.60	.60	.60	.60
Per Common Share	.80	.74	.72	.70	.62
Working Capital Ratio	1.6:1	2.1:1	1.7:1	1.9:1	2.1:1
Cash Flow Per Common Share	6.16	5.37	4.35	3.74	3.78
Capital Expenditures	1,475,000	691,000	528,000	659,000	351,000

Notes

(1) Results for the year ended December 31, 1971 are unaudited. The Auditors reported upon the fiscal results for the eleven months ended December 31, 1971.

(2) Results are for the years ended January 31, 1971 (1970) and January 31, 1970 (1969).

REPORT OF THE BOARD OF DIRECTORS
TO THE SHAREHOLDERS

Financial

The year ended December 31, 1973 covered a period of significant growth for the Company. We are pleased to report our consolidated sales and earnings again exceeded all previous years.

Sales increased 21.4% to $24,981,000 and earnings from operations before income taxes amounted to $1,783,000, an increase of 9.6% over 1972. Net earnings from operations after deducting income taxes amounted to $892,000 representing an increase of 8.0% over 1972.

On a per common share basis, earnings from operations rose to $3.80 per share in 1973, representing an increase of 9.2% over the $3.48 per share realized in 1972, after providing for preferred dividends of $94,000 in each year. The number of issued and outstanding common shares remained unchanged in both years.

In addition to the earnings from operations in 1972, an extraordinary gain of $509,000 or $2.42 per common share was realized on the sale and revaluation of properties. There were no extraordinary gains or losses included in the results for 1973.

Expansion and Marketing

As stated in last year's report, it is the Company's intention to actively participate in the expanding markets of specialty retailing. The capital investment program in 1973 amounted to $1,475,000, more than double that of any previous year.

Forty-two new units were added in 1973, and, in keeping with the Company's planned policy of phasing out smaller uneconomical units, fifteen stores were closed and a number of other stores were modernized and enlarged.

On July 2, 1973, the Company purchased the fixtures, improvements and inventory of the leased shoe departments in the four fashion-oriented Robinson department stores located in the Hamilton area. This is compatible with the Company's long-term strategy of emphasizing branded merchandise and specialty stores.

Generally speaking, new stores do not immediately contribute sufficient sales to offset attendant additional overhead costs. Accordingly, the opening of new stores and to a lesser extent, the expansion of existing stores can have adverse effects on the net earnings for the short term periods next following. All expenses incurred in the opening of stores in 1973 were written off during the year.

Thirty-five regional and community enclosed mall locations were opened in 1973, now bringing the Company's total of regional and community enclosed mall locations at year-end to 102 of the 194 conventional locations across Canada.

Supplementing these conventional markets, the Pic-Wic Division broadened its base to 9 operating units at the end of the year, giving the Company participation in the promotional self-serve markets.

The Copp group based in Vancouver continues to expand its markets both in the family stores and through the Reid specialty stores. Management has been broadened to effect this expansion and this group has enjoyed a record performance in 1973. Reid specialty stores are now well established in regional malls around Vancouver, British Columbia, and in August 1974, Reid and Copp will open their first units in Calgary, Alberta.

At year-end our four operating divisions were:

	STORES IN OPERATION		
	1973	1972	Increase
Maher and Pic-Wic	117	115	2
Bonita and Shoeman	42	25	17
Copp and Reid	42	40	2
Lanes and Robinson's	9	3	6
Totals	210	183	27

The Company's planned program will continue in each division and we are confident that this broader base will enhance our profit opportunities in 1974 and beyond. This will be achieved by selective expansion from now on of existing divisions, while seeking compatible businesses that meet our corporate goals and long-term strategies.

Personnel

After a distinguished career for 40 years with the Company, Lane R. Chester retired from the responsibilities of Chairman of the Board as of December 31, 1973. However, we are pleased to have him remain with us as a Director and as a member of corporate committees. Donald G. Willmot, a Director of the Company since 1965, was appointed Chairman of the Board.

We were saddened by the untimely death on February 13, 1974, of Donald E. Ross, a Vice-President and Director of the Company. His judgement and wise counsel had made an outstanding contribution to the Company.

Appreciation

The year's achievement represents the results of the individual effort and teamwork of managers and staff within each division of our organization. We are grateful for the dedication of these men and women to the continued success of our Company.

To our many customers, employees and shareholders, your management expresses its thanks for their continued loyalty and support.

On behalf of the Board of Directors . . . .

D G Willmot

Chairman

Thomas P. Wilson

President

Toronto, Canada April 8, 1974.

AUDITORS' REPORT

To the Shareholders of
MAHER SHOES LIMITED:

We have examined the consolidated balance sheet of Maher Shoes Limited and its wholly-owned subsidiary as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
February 18, 1974.

CLARKSON, GORDON & CO.,
Chartered Accountants

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ASSETS

	1973	1972
Current:		
Cash (including short-term investments of $190,000 in 1972)	$ 93,000	$ 376,000
Accounts receivable	472,000	332,000
Merchandise inventories, at the lower of cost or net realizable value	7,042,000	4,598,000
Prepaid expenses and other assets	177,000	100,000
Total current assets	7,784,000	5,406,000
Mortgages receivable, maturing in 1975, 1978 and 1980	340,000	300,000
Fixed:		
Building, at cost	116,000	116,000
Fixtures, equipment and leasehold improvements, at cost	5,117,000	3,737,000
	5,233,000	3,853,000
Less accumulated depreciation and amortization	1,883,000	1,531,000
	3,350,000	2,322,000
Land, at cost	38,000	38,000
Land and buildings in process of disposition (note 2)	—	572,000
Total fixed assets	3,388,000	2,932,000
	$11,512,000	$ 8,638,000

On behalf of the Board:
Lane R. Chester, Director
Thomas P. Wilson, Director

(See accon

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LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current:		
Bank indebtedness	$ 3,069,000	$ 1,121,000
Accounts payable and accrued charges	1,189,000	962,000
Income and other taxes payable	434,000	368,000
Dividends payable	65,000	65,000
Total current liabilities	4,757,000	2,516,000
Long-term:		
6¾ % sinking fund debentures Series A maturing April 1, 1987 (note 3)	1,325,000	1,418,000
Deferred income taxes	193,000	113,000
Shareholders' equity:		
Capital –		
Authorized:		
156,675 60¢ cumulative, non-redeemable preference shares without par value		
400,000 common shares without par value		
Issued:		
156,666 preference shares	1,413,000	1,413,000
209,900 common shares (note 4)	1,076,000	1,060,000
	2,489,000	2,473,000
Retained earnings	2,748,000	2,118,000
Total shareholders' equity	5,237,000	4,591,000
	$11,512,000	$ 8,638,000

g notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1973

	1973	1972
Sales	$24,981,000	$20,573,000
Costs and expenses:		
Cost of sales and operating expenses	22,448,000	18,348,000
Depreciation and amortization	425,000	356,000
Debenture interest and expense	95,000	102,000
Other interest (net)	230,000	141,000
	23,198,000	18,947,000
Earnings before income taxes	1,783,000	1,626,000
Income taxes	891,000	800,000
Earnings from operations	892,000	826,000
Extraordinary item – net gain on sale and revaluation of properties	—	509,000
Earnings including extraordinary item	892,000	1,335,000
Retained earnings, beginning of year	2,118,000	1,032,000
	3,010,000	2,367,000
Less dividends:		
Preference shares – 60¢ per share	94,000	94,000
Common shares – 80¢ per share (74¢ in 1972)	168,000	155,000
	262,000	249,000
Retained earnings, end of year	$ 2,748,000	$ 2,118,000
Earnings per common share:		
Earnings from operations	$3.80	$3.48
Extraordinary item	—	2.42
Earnings including extraordinary item	$3.80	$5.90

(See accompanying notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1973

	1973	1972
Funds provided:		
Earnings from operations	$ 892,000	$ 826,000
Add charges not representing use of funds –		
Depreciation and amortization	425,000	356,000
Deferred income taxes	80,000	21,000
Loss (gain) on disposal of fixed assets	(9,000)	18,000
Total funds from operations	1,388,000	1,221,000
Net proceeds on sale of company properties	603,000	1,125,000
Common share subscriptions (note 4)	16,000	7,000
	2,007,000	2,353,000
Funds applied:		
Fixtures, equipment and leasehold improvements	1,475,000	691,000
Dividends	262,000	249,000
Mortgages receivable (net of repayment)	40,000	249,000
Reduction of long-term debt	93,000	7,000
	1,870,000	1,196,000
Increase in working capital	137,000	1,157,000
Working capital, beginning of year	2,890,000	1,733,000
Working capital, end of year	$ 3,027,000	$ 2,890,000

(See accompanying notes)

MAHER SHOES LIMITED

and its wholly-owned subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. Basis of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Copp The Shoe Man Limited.

2. Fixed Assets

During 1973 the company completed its program under which certain land and buildings were disposed of for amounts substantially equivalent to their carrying value at December 31, 1972 of $572,000.

3. Sinking Fund Debentures

The debentures are secured by a first floating charge on the assets of the company. A supplemental indenture to the Trust Deed, dated June 1, 1973 amended certain covenants and increased the interest rate payable on the outstanding debentures from 6¼ % to 6¾ %. The more significant of the covenants of the Trust Deed now restrict the company from reducing consolidated working capital below $1,000,000 and from paying dividends on common shares if such payments would reduce consolidated working capital below $1,250,000.

At December 31, 1973, the company had a sinking fund credit sufficient to meet the $67,000 payment due in 1974, and the payments required in 1975 and future years average approximately $98,000 per annum to 1987, the date of maturity.

4. Share Capital

In 1970, 9,900 common shares were issued to officers and employees of the company for an aggregate subscription price of $198,000. During 1973 $16,000 was received by the company pursuant to a directors' call on a part of the subscription price. At December 31, 1973 $155,000 remained outstanding on 9,100 shares and is not due until called which may be done within seven years in amounts not exceeding $36,000 per annum.

5. Lease Obligations

At December 31, 1973 the companies had lease commitments expiring between 1974 and 1998 which provide for minimum average rentals of approximately $1,350,000 annually over the next five years exclusive of taxes, percentage rentals and other related occupancy costs.

6. Remuneration of Directors and Senior Officers

Remuneration of directors and senior officers amounted to $236,000 in 1973 ($211,000 in 1972).

7. Unfunded Pension Liability

As at December 31, 1973, the actuarially computed present value of the company's obligations for unfunded past service costs to the Maher Pension Plan approximated $561,000 (after deducting $47,000 charged to operations in 1973). The company proposes to fund this amount in equal annual instalments of approximately $47,000 over the next sixteen years and to absorb these costs against operations as these payments are made.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(UNAUDITED)

	Six Months Ended June 30 1973	Six Months Ended June 30 1972
Source of Funds:		
Net earnings for period	$ 219,000	$ 182,000
Add depreciation and other charges not requiring outlay of funds	189,000	191,000
Total funds from operations	408,000	373,000
Proceeds on disposal of properties less mortgages repaid and assumed	330,000	770,000
Common share subscriptions	3,000	—
Other items	4,000	—
Total funds provided	745,000	1,143,000
Application of Funds:		
Additions to fixed assets	551,000	262,000
Dividends	131,000	122,000
Redemption of debentures	100,000	—
Total funds applied	782,000	384,000
Increase (decrease) in working capital	(37,000)	759,000
Working Capital, December 31	2,890,000	1,784,000
Working Capital, June 30	$2,853,000	$2,543,000

MAHER SHOES LIMITED

INTERIM REPORT TO SHAREHOLDERS

Six Months Ended June 30th, 1973

Cancorp

TO THE SHAREHOLDERS:

Maher again achieved new records in sales and earnings for the six months ended June 30, 1973. Sales rose to $10,333,000, an increase of 21.5% and net earnings amounted to $219,000, an increase of 20.3% over the corresponding six month period last year.

Footwear retailing activity is traditionally stronger in the second half of the calendar year. With consumer spending continuing to reflect its present strength, together with anticipated openings of several new retail outlets in the second half of the year management is confident that the growth trend in sales and earnings will continue, thereby, making 1973 another record year for the Company.

Thomas P. Wilson
President

Lane R. Chester
Chairman

Toronto, Canada
August 17, 1973.

CONSOLIDATED STATEMENT OF EARNINGS

(UNAUDITED)

	Six Months Ended June 30 1973	Six Months Ended June 30 1972	Change
Sales	$10,333,000	$8,502,000	+21.5%
Earnings Before Income Taxes	448,000	363,000	+23.4%
Income Taxes	229,000	181,000	+26.5%
Net Earnings	219,000	182,000	+20.3%
Earnings Per Common Share	$ 0.82	$ 0.64	+28.1%

MAHER SHOES LIMITED

PRELIMINARY REPORT TO SHAREHOLDERS

Year Ended December 31st, 1973

TO THE SHAREHOLDERS:

During 1973, sales rose to $24,981,000, an increase of 21.4% and earnings from operations before income taxes amounted to $1,783,000, an increase of 9.6% over 1972. Net earnings from operations after deducting income taxes amounted to $892,000 representing an increase of 8.0% over 1972.

On a per common share basis, earnings from operations rose to $3.80 per share in 1973, representing an increase of 9.2% over the $3.48 per share realized in 1972. In addition to the $3.48 per share, the results for last year also included an extraordinary gain of $2.42 per share. No extraordinary gains or losses are included in the results for 1973.

The Company further aggressively implemented its planned program of specialty shoe retailing in 1973 with the opening of 42 new retail units and the closing of 15 unecomonical units. This program contributed significantly to the sales increase, as now more than one-half of the Company's conventional units are located in regional and community enclosed malls across Canada and are expected to realize increased profitability during 1974 and beyond.

The annual report for 1973 incorporating the financial statements and further details of the year's operations will be mailed to the shareholders shortly.

Donald G. Willmot
Chairman

Thomas P. Wilson
President

March 8, 1974,
Toronto, Canada

Cancorp

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended 1973	Year Ended 1972
Sales	$24,981,000	$20,573,000
Earnings Before Income Taxes	1,783,000	1,626,000
Income Taxes	891,000	800,000
Net Earnings From Operations	892,000	826,000
Extraordinary Gain	–	509,000
Earnings Including Extraordinary Gain	892,000	1,335,000
Earnings per common share:		
Earnings from operations	$ 3.80	$ 3.48
Extraordinary Gain	–	2.42
	$ 3.80	$ 5.90